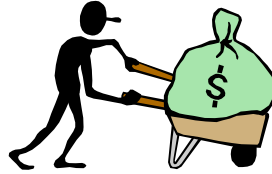


# The Cost of Turnover



Turnover is costly. Once you know the true cost of turnover, reducing it will become a high priority in your business.

Enthusied, loyal employees with the right talents increase your profits. No decision is as important as the decisions about people because they determine the limits of how far your organization can go.



A recently conducted survey of employers in Flathead and Lake county indicates that only 16 percent of employers measure their turnover costs. There are numerous ways to estimate actual turnover costs. The U.S. Department of Labor estimates that it costs a company one-third of a new hire's annual salary to replace an employee. Using a wage rate of only \$7 an hour, it costs a company \$4,350 for each departing employee. Estimates of the cost to replace supervisory, technical and management personnel run from fifty to several hundred percent of their salaries.

Simple turnover rate equals a company's total number of separations (both voluntary and involuntary) divided by its total number of employees. Most companies exclude cyclical layoffs, permanent reductions-in-force, temporary employees and cutbacks due to mergers. Some also exclude unavoidable turnover due to death, illness or spouse relocation.

## **Turnover costs can be divided into four categories:**

**Separation:** may include pre-separation costs of an employee's slower work pace, increased absenteeism, sabotage, unemployment insurance, litigation, severance, COBRA benefits continuation costs, the cost of conducting exit interviews, lost opportunities in sales and service and expenses such as overtime pay for employees who pick up the slack.

**Replacement:** may include advertising, recruiting, referral bonuses, relocation expenses, sign-on bonuses, processing paperwork, testing, interviewing, reference and background checks, as well as time and material for new hire orientation.

**Training:** includes the time and effort from trainers, supervisors and coworkers.

**Productivity:** harder to quantify, but includes increased error rates, lost productivity due to the learning curve, lost customers and decreased morale as well as possible opportunity losses and reputation effects.

# Why do people leave their jobs?



Sometimes it's for better career opportunities, benefits and money.

Sometimes it's because of a poor supervisor and has nothing at all to do with the company.

Sometimes it's because they are unhappy. Employees need to feel like they make a difference; they need meaningful work; and they need a work/life balance.

Sometimes it's because the employer hired the wrong person—the talents or strengths of the individual hired did not match the talents needed. This also applies to promotions when star-performing employees are advanced to positions not suited to their talents.

To help you understand why employees leave your organization, conduct exit interviews. Pay particular attention to why your most valued employees leave. The Workforce 2020 survey of area employers reports that only 39% of employers conduct exit interviews. Pay particular attention to why your most valued employees leave.

The Society for Human Resource Management's 2000 Retention Practices Survey revealed the most common reason employees voluntarily leave is for the pursuit of career opportunities elsewhere. This survey cited the next two most often reasons for leaving as better compensation and benefit packages and poor management.

Interestingly, a Harvard study found that nearly 80% of turnover is attributed to hiring mistakes. Remember pay and benefits are important to all employees—good, bad and mediocre.

Consider doing an anonymous retention analysis of your current employees. Keep it simple and respond to the information you receive.

## Retention Analysis

Some turnover is inevitable, but managers need to know the true reasons why employees leave and why they stay. How can you assess why your employees leave?

**ASK! and then LISTEN.**  
**Forget Why People Leave: Ask "Why do people stay?"**



Ask your staff why they stay. Wouldn't it be a great idea to know why your place of business is the "greatest" place to work?

### Some reasons why people stay:

- Great boss—who is there for me
- Like the people I work with and the environment is fun
- Treated like a real person
- Ideas are heard
- Recognized for working hard
- Acknowledge my family
- Training and development opportunities
- Clean and safe working environment

# Retention Analysis Survey

Use positive comments to develop potential niches to set you apart from other companies. Use negative comments as opportunities to make improvements and create potential employment niches. Niches would include unique environment, compensation and opportunities to develop. Continuously communicate and market why your company is so special to work for with recruitment brochures, newsletters, payroll stuffers, career planning guides, etc.

Other ways to find out include: practice management by walking around and asking for input; work side by side with your employees; offer suggestion systems; ask for input at meetings, and be sure to conduct exit interviews and surveys to find out why they are leaving when they actually do leave.

**What do you like best about your job?**

**What do you enjoy about working in your department?**

**What do you enjoy about working for our company?**

**What's the most important thing that keeps you working for us?**

**What would you tell a friend about the pros and cons of coming to work for us?**

**What would cause you to look for work somewhere else?**

**If you could change any one thing to make this a better place to work, what would it be?**

**What is important to your career development? Do we provide this to you?**



# What Can You Do?

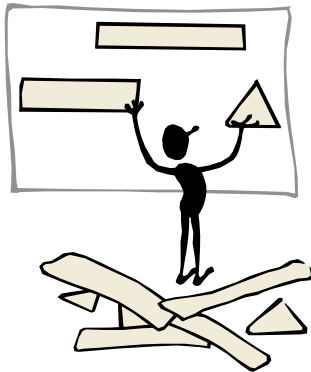
Treat employees like they make a difference, and they will make a difference.

The people who work for you are the only true source of long-term, sustainable, competitive advantage. They are the force that properly motivated and directed, drive your quality, innovation and customer service and satisfaction.

Employers need to review their hiring criteria to ensure that they aren't omitting potentially excellent employees due to requirements that have little or nothing to do with the job at hand.

With such diverse age groups, employers must develop recruitment and retention strategies that motivate every worker regardless of age, while keeping each individual's wants and needs in mind.

## Hire the right people and make efforts to keep them by providing:



- Realistic job previews
- Improved selection
- Good employee orientation
- Build in continuous training
- Supervisory leadership
- Well-designed employee mentoring systems
- Pay competitively and provide benefits
- Improved working conditions
- Job enrichment
- Opportunities for career advancement
- Address employee concerns



**Training, Training, Training:** Spend quality time with employees. Relevant training, coaching and mentoring are far more important than they are traditionally given credit. "The skills of the workforce are going to be the key competitive weapon in the 21st century...skilled people become the only competitive advantage." Lester Thurow, MIT

Studies indicate that within 12 months, 35% of new hires will leave the company due to dissatisfaction with the company's mentoring procedures and another 41% will leave because they are dissatisfied with the company's training.

**Orientation Program:** Develop an orientation checklist that insures new employees receive adequate training and job-related information as well as protects you by insuring that all required documentation is completed. Refer to the New Employee Orientation Checklist (in the Hiring Tools section of this booklet).